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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on policies and practices for advanced metering, demand response, and dynamic pricing.	Rulemaking 02-06-001 (Filed June 6, 2002)

ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE'S RULING DIRECTING THE FILING OF RATE DESIGN PROPOSALS FOR LARGE CUSTOMERS

As any party who has been following this proceeding or the electricity industry generally should be aware, there is substantial concern in the regulatory community that during the summer of 2005 there may be insufficient generating capacity to meet system peak demand. In this proceeding, we have attacked this problem in various ways, for example, we recently required the utilities to file additional reliability triggered demand response programs and other voluntary programs designed to encourage customers to reduce their load during peak periods.

The reliability based demand programs are designed, for the most part, to provide short term load reduction capabilities during system emergencies that are caused by unexpected temporary outages, for example, when a transmission line or power plant is unavailable. These types of programs have significant value in mitigating emergencies, but do not provide a rational way to plan to serve an **anticipated**, ongoing supply shortage like we believe is possible in summer 2005. Other price driven demand response programs are fairly new, voluntary, and generally untested, and our ability to depend on them for actual

load reduction in the short term is limited. Therefore, the programs proposed thus far, though important, do not exactly address the problems we are attempting to solve for the summer of 2005.

The current voluntary critical peak pricing tariffs allow customers with favorable load shapes to reduce their bills without actually providing additional demand reduction. Because the current tariffs are voluntary, those customers whose load contributes significantly to peak demand levels have no incentive or interest in participating on a voluntary tariff. In addition, though most large customers already have interval meters in place, the utilities have not routinely put the communications and billing infrastructure in place to effectively utilize the meters. The utilities should move immediately to fully utilize and integrate the capabilities of the advanced meters installed at large customer premises into their operations.

When interval meters were installed, and voluntary critical peak pricing tariffs were put in place, we expected that the customers with these meters would provide a significant source of demand response capability. Instead, what we have found is that few customers have enrolled in the voluntary critical peak pricing tariffs. Customers currently on non-firm or interruptible rates have little incentive to switch to today's critical peak pricing tariff.

We believe the time is now to consider adoption of a new default rate (or rates), tailored to customers with demand over 200 kW, that provides a critical peak price signal distinct from the generic peak period. We direct PG&E, SCE, and SDG&E to file applications by January 20, 2005, for implementation by June 1, 2005, that propose new rate schedules for all customers over 200 kW that provide strong peak demand signals and move existing non-firm and interruptible rate customers onto that rate and concurrently enroll them in an

optional program like PG&E's proposed 2005 E-BIP (subject to opt out provisions). The proposed tariffs should be designed to recover the total revenue, including transmission and distribution charges, currently allocated to customers 200 kW and larger and be class revenue neutral, compared to existing rates, based on current class load patterns.[1] The utilities should consult with stakeholders as much as possible about their rate applications prior to the filing date.[2]

We believe this approach is consistent with Pub. Util. Code § 743.1 while providing a strong and consistent signal to large customers about the importance of reducing their demand during critical peak periods. Although we envision these changes are necessary both in the short term (to meet summer 2005 objectives) and the long term (to meet general efficiency objectives), we are open to considering implementation of the proposed tariffs just for summer 2005 and ask the utilities to suggest whether the rates they propose should be effective for just summer 2005 or until their next rate design application. In this ruling we do not dictate how the proposed rates should be structured but offer some of our thoughts about how the rates could be set and the objectives such rates should accomplish.

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[1] In other words, the new default rate proposals should be comprehensive, covering both demand and volumetric charges.

[2] This ruling only addresses customers who currently have interval meters installed because it focuses on summer 2005 efforts. As part of the advanced metering infrastructure applications that the utilities will be filing on March 15, 2005, we will evaluate whether and if so how, to deploy meters that will allow us to send critical peak prices and measure demand response for smaller customers.

We recognize that the largest customers, especially those operating manufacturing or industrial process facilities may not have the same type of discretionary load that smaller customers have, and thus the price signals that a new tariff needs to send must encourage customers to make longer term investment and operating decisions to move their usage out of the most critical peak demand period.[3] In addition, the general load profile of the largest customers, although still substantial, declines as a class before the system peak is reached. Thus, it is not clear that a program structured like the current voluntary critical peak pricing tariff (which is triggered the day ahead) makes sense for the largest customers. Customers with load between 200 and 500 kW may have more air conditioning load, and their class load profiles generally align more closely with the system peak than the largest customers, so they may have more load capable of shifting off the critical peak.

As we envision it, customers who were previously served under non-firm rates will be subject to the same default rates as other large customers, but will be able to reduce their total energy cost further by participating in optional interruptible programs like PG&E's E-BIP that pay a capacity reservation payment for committed emergency interruptible load reduction and an additional payment for performance. Under this approach, customers will first have the incentive to modify their usage on a voluntary basis in response to their tariffed rate (an incentive that the current non-firm rates lack), and secondly, to provide additional short-term emergency capability when interruptible programs are triggered.

[3] We recognize that, in some cases, these investments may not be completed by the beginning of summer 2005.

It may be that a new rate should be focused only on one or two months of the currently defined summer period and / or fewer hours than the peak period currently defined by the tariffs. It may be that the rate should simply include an additional time-of-use period to focus on the super peak for a limited number of hours and months, rather than be called the day ahead like today's voluntary critical peak pricing tariff. The rate could be structured so that customers know that during a narrowly defined critical peak time period (say 4:00-6:00 p.m. every weekday in August and September) they will be subject to a known, very high, critical peak price during times when the ISO identifies a particular reserve condition, but that price is only triggered under that specific reserve condition. It could be that the rates proposed could differ by end use (industrial, retail, etc.). We do not specify these requirements, but list them simply to generate ideas about how a new default tariff could be structured.

If the utilities wish to propose optional rates as alternatives to the default rate (for example, a time of use rate without a critical peak price or, at the other extreme, real time pricing), they may do so, provided that the rates incorporate any costs or financial hedges required to provide that critical peak period costs will be recovered. If the utilities wish to retain the existing non-firm and interruptible rates for summer 2005, they may include that proposal and rationale and how doing so would impact dependability of interruptible capacity and class revenue recovery, but they must also prepare and propose a new default rate for customers currently on the non-firm and interruptible tariffs that sends a strong critical peak price signal, consistent with this ruling. If the utilities are concerned about the dependability of interruptible capacity under this approach, they may certainly propose a transition plan to maintain a certain level of interruptible capacity, but with a longer term goal of eliminating those rates.

This approach might result in the utility proposing that the target for this summer be focused on customers who currently are not participating in any interruptible or critical peak pricing program.

Our goal in directing the filing of applications for a new default rate structure is to provide sufficient economic incentive to large customers to predictably and systematically move their usage out of the critical peak period, and if they do not do so, have them pay an increased rate for usage during that narrow set of hours. Because the rates proposed should be class revenue neutral under current class load patterns, rates for electricity consumed during non-critical peak periods will likely decline compared to today's rates.[4] Because of our concurrent goal to retain the capability to respond in emergencies that we currently have with interruptible rates, we do not simply eliminate those tariffs without any provision for interruptible capacity, but promote alternative interruptible programs, like PG&E's E-BIP and other programs, some of which will be addressed in our 2005 demand response program decision in early 2005.

To the extent that any new or existing customers with demand of 200 kW or greater do not currently have interval meters installed, the utilities should move immediately to install such meters, place those customers on time-of-use rates (to be replaced by the new default tariff upon adoption), and propose cost recovery mechanisms for the costs of any new interval meters that need to be installed. Utilities should also propose education efforts (and associated

[4] We recognize that under this approach, if customers do significantly shift their load off of the critical peak, the revenue allocated to that customer class may be undercollected. The utilities should present their expected revenue collection under the rates proposed and identify their preferred ratemaking approach to recover any shortfall.

budgets) to alert customers about the new default rates and information about other programs designed to assist customers with managing their electricity usage (energy efficiency, other demand response programs, self generation programs) and lowering their bills upon implementation.

The January 20, 2005 applications should be filed on the service list for Rulemaking 02-06-001 (or its successor proceeding), and the service lists for each utilities most recent general rate case and rate design proceedings. In order to facilitate a thorough understanding of the proposals, which will improve parties' abilities to prepare testimony quickly, once the default rate applications are filed, the utilities should host a workshop (or workshops) for all interested parties to provide an overview of their proposed rates and elaborate on the methodology used to develop the rates. The Administrative Law Judge assigned to the new applications will set any further procedural schedule to facilitate establishing new rates by June 1, 2005.

Therefore, **IT IS RULED** that:

1. The utilities shall move immediately to fully utilize and integrate the capabilities of the advanced meters installed at large customer premises into their operations.

2. To the extent that any new or existing customers with demand of 200 kW or greater do not currently have interval meters installed, the utilities shall move immediately to install such meters, place those customers on time-of-use rates (to be replaced by the new default tariff upon adoption), and propose cost recovery mechanisms for the costs of any new interval meters that need to be installed.

3. The utilities should consult with stakeholders as much as possible about their rate applications prior to the filing date.

4. PG&E, SCE, and SDG&E shall file applications by January 20, 2005, for implementation by June 1, 2005, for new rate schedules for all customers over 200 kW that provide critical peak pricing signals and move existing non-firm and interruptible rate customers onto that rate and concurrently enroll them in an optional program like PG&E's proposed 2005 E-BIP (subject to opt out provisions). The utilities may also propose alternative rates for customers who wish to select a rate that does not include a critical peak price signal, as described herein.

5. Once the default rate applications are filed, the utilities shall host a workshop (or workshops) for all interested parties to provide an overview of their proposed rates and elaborate on the methodology used to develop the rates.

Dated December 8, 2004, at San Francisco, California.

/s/ MICHAEL R. PEEVEY	/s/ MICHELLE COOKE
Michael R. Peevey	Michelle Cooke
Assigned Commissioner	Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Assigned Commissioner and Administrative Law Judge's Ruling Directing the Filing of Rate Design Proposals for Large Customers on all parties of record in this proceeding or their attorneys of record.

Dated December 8, 2004, at San Francisco, California.

/s/ TERESITA C. GALLARDO
Teresita C. Gallardo

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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